

## **Meeting of the Executive Member for Corporate Services and Advisory Panel**

18 March 2008

Report of the Assistant Director (Audit and Risk Management)

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### **Audit and Fraud Shared Service – Business Options**

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#### **Summary**

- 1 To advise Members of the progress which has been made to date in developing the audit and fraud shared service initiative with North Yorkshire County Council (NYCC), and the outcome of the options analysis, as set out in the Outline Business Case. The report also seeks Member approval to proceed with the project as originally defined and to implement an appropriate long term structure for the service.

#### **Background**

- 2 Local authorities are being encouraged to re-think traditional methods of service delivery in order to reduce waste, increase efficiency and improve outcomes. A key theme in the recent Government White Paper 'Strong and Prosperous Communities' was that one of the main ways for local authorities to achieve such improvements is through greater joint working to optimise economies of scale and maximise service efficiencies.
- 3 Following initial discussions, York and NYCC expressed a desire to explore the possibilities for greater joint working, particularly in respect of back office finance and governance related functions. Audit and fraud services were identified as suitable areas for early consideration. The intention was to treat this as a pilot exercise so as to enable the benefits of such an approach to be properly assessed in a discrete, low risk service area for both authorities. The experience gained would then inform consideration of possible future collaboration in other service areas.
- 4 A report was presented to Corporate Services EMAP on 11 September 2007, setting out the potential benefits of collaboration. Members approved the development of a shared audit and fraud service between the two Councils, and agreed that a three phase strategic approach should be adopted as follows;
  - a) Phase I – short term management arrangement and development of business options for the long term organisational structure of the service;

- b) Phase II – implementation of the agreed structure and benefits realisation;
- c) Phase III – review, evaluation and appraisal of other shared service opportunities.

## **Drivers for Change**

5 The drivers for change at both a national and local level facing the two Councils are;

- a) The transformational policy agenda. The Department for Communities and Local Government White Paper 'Strong and Prosperous Communities' encourages authorities to work collaboratively together, and with other public sector bodies to deliver efficiencies and value for money;
- b) Comprehensive Performance Assessment (CPA). Joint commissioning and shared services are key determinants in the Use of Resources – Key Lines of Enquiry assessment. The Audit Commission is currently consulting on the approach to be followed for the Comprehensive Area Assessment (CAA), but have already indicated that greater emphasis will be placed on organisational effectiveness, partnering, increased efficiency, and joint commissioning;
- c) Local Government Reorganisation. Whilst North Yorkshire County Council's proposed bid for unitary status was not successful there remains a strong expectation from government that authorities in and around North Yorkshire will in future work more collaboratively;
- d) The need to build service resilience and capacity across both authorities to maintain an effective and professional audit and fraud function, in the face of problems in covering key staff vacancies and difficulties in being able to respond to changing priorities and increasing workload demands;
- e) The need to retain skilled and experienced staff by creating greater critical mass and providing more opportunities for career development and specialism;
- f) The need to make best use of the scarce professional audit expertise available (particularly in contract and IT audit), given that both authorities encounter difficulties in building sufficient capacity in-house, so as to avoid the reliance on expensive external providers;
- g) The need to further enhance the professional standards of the audit and fraud services in both Councils so as to maintain and develop the effectiveness of the function and comply with legislative and regulatory requirements;

- h) The need for both Councils to develop proper arrangements for succession planning and reduce the existing reliance on certain key staff for service continuity.

## **Benefits of Collaboration**

- 6 The key benefits to the two Councils of collaboration are;
  - a) Providing greater resilience and capacity. The combined team would be better placed to manage resource pressures, including staff vacancies and/or unexpected service demands;
  - b) Providing greater flexibility to respond to changing priorities, initiatives and/or new working methods;
  - c) Delivering efficiencies through sharing best practice, integrating processes and reducing duplication of effort;
  - d) Demonstrating a positive response to the government's efficiency and service transformation agenda;
  - e) Achieving economies of scale by sharing overheads and reducing unproductive time whilst maintaining or improving current levels of performance;
  - f) Enhancing the focus on service delivery, professionalism and quality such that the combined service is seen as a 'beacon of excellence';
  - g) Increasing the opportunities for staff to specialise and enhancing career opportunities, resulting in greater staff satisfaction and retention;
  - h) Providing greater opportunity to develop audit specialisms and reduce the reliance on bought-in services;
  - i) Providing a robust shared service model which offers greater opportunity for future collaboration with other Councils in the region, particularly the North Yorkshire districts, and which helps to develop the existing market place;
  - j) Improved succession planning arrangements and a reduced reliance on key members of staff for service continuity;
  - k) The ability of both Councils to develop common approaches to new and developing initiatives (for example, Corporate Area Assessments and joint Private Finance Initiative projects).

## **Progress to Date**

- 7 Phase I of the shared service with NYCC commenced on 1 October 2007. The interim shared management arrangements were put in place from this date with the CYC Audit and Fraud Manager assuming overall management responsibility across both teams. This has provided management economies of scale whilst at the same time providing clear leadership and focus through the period of change.
- 8 A Project Board, comprising the Assistant Director Resources (Audit and Risk Management), the Assistant Director (Central Finance – NYCC)

and the Audit and Fraud Manager was also established to direct and coordinate the development and delivery of the shared service. During phase I of the process, the two staff groups have continued to operate from their existing office locations. The staff have also remained on their current terms and conditions. A minor restructure was however undertaken at CYC to reflect the changed management responsibilities and to establish local 'site' management support for the Audit and Fraud Manager in the operational delivery of the service. NYCC also made an appointment to a new post of Audit and Information Assurance Manager (the NYCC equivalent local 'site' manager).

- 9 Progress has been made to integrate working practices and systems across both teams. Although both teams use the Galileo IT application to manage and record audit work, the version operated by NYCC uses a different operating system. Work is therefore underway to migrate NYCC staff to the CYC version of the system. This will require certain system modifications as well as consideration of data transfer and security issues. A standard audit procedure manual is being prepared and audit programmes consolidated.
- 10 Staff and key stakeholders have been kept updated on progress with the project, at regular intervals. A Communications Strategy was agreed and three joint staff workshops have been held. Local and regional representatives from Unison have also been kept informed of developments.
- 11 Work has also been undertaken to evaluate the detailed business options for the long term organisational structure of the service. Baseline financial and performance benchmarking information was collected and analysed. The local government project delivery specialists, 4ps have also provided technical advice and support to the project. NYCC also secured funding of £21.5k from the Yorkshire and Humber Centre of Excellence to help fund external legal, HR and procurement advice, and the IT integration costs associated with the project.

## **Outline Business Case**

- 12 An Outline Business Case (OBC) has been prepared which sets out the aims and objectives for the project. The OBC is intended to provide the basis for determining the most appropriate organisational structure for the shared service, as well as detailing the anticipated outputs and outcomes which the project is expected to deliver. A copy of the OBC is attached as annex A.
- 13 As well as setting out the drivers for change and the key benefits of collaboration, the OBC includes details of the existing service arrangements at both Councils, the vision and objectives for the shared service, and the links to both Council's corporate objectives and priorities.

- 14 The OBC also contains details of the options appraisal undertaken by the Project Board to help identify the future scope, scale and direction of the project. The results of the options analysis are set out below.

## Consultation

- 15 Staff from both authorities, together with local and regional representatives from Unison have been consulted on the proposals set out in this report. In addition, senior management at both authorities have also been consulted and are supportive of the proposals. Discussions have also been held with HR, finance and legal representatives at both Councils.

- 16 Regular staff workshops have been held to keep staff informed of progress, and to allow them the opportunity to contribute to the process and to raise any concerns which they may have. The staff at CYC are generally happy with the proposals set out in this report although they are anxious to ensure that the final implementation of the chosen option is not to their detriment. Unison has provided the following response;

*“A meeting was held with UNISON representatives and the three preferred options for the delivery of a shared service were presented. UNISON were advised that Option E, a company limited by shares or guarantee (ALMO), was the recommended option.*

*UNISON stated that whilst they are opposed in principal to the creation of an ALMO they supported the development of a shared service and would work with the programme board to ensure that staff terms and conditions are not compromised.”*

- 17 The Chair of the Audit and Governance Committee has been briefed on the proposals set out in this report. The A&G Committee has also been kept informed of progress in developing the shared service. Their views have been taken into account in the development work undertaken to date. Ongoing discussions have also been held with the Council’s external auditors, the Audit Commission. It is important to ensure that the outcome of this process satisfies the responsibilities of the A&G Committee with regard to the efficacy of the audit function, and will also enable the Audit Commission to continue to place reliance on internal audit work. Both are satisfied with the progress and scope of the work undertaken to develop the initiative, to date.

- 18 Further formal consultation with staff and Unison on the proposals will be undertaken as part of the implementation process, in accordance with the Council’s change management policies.

## Options

- 19 Members have four options to consider at this stage in the project process, as set out in the OBC. The options are;
- a) Option 1 – abandon the current process of collaboration between the two Councils and revert back to the service arrangements which existed prior to 1 October 2007 (do nothing);

- b) Option 2 – abandon the current project to develop a long term shared service solution for the provision of audit and fraud services but explore more limited collaboration where appropriate (do the minimum);
  - c) Option 3 – proceed with a shared service project but change the original scope and, or direction of the process by, for example, bringing in additional partners or changing the range of services to be included (do something else);
  - d) Option 4 – proceed with the scope and direction of the project, ie to establish a formal shared service between CYC and NYCC, as originally set out and agreed by Members in September 2007 (to continue with the current development process).
- 20 Option 4 is recommended. This approach is considered the most likely to deliver the anticipated benefits set out in paragraph 6 above. These benefits cannot easily be achieved by either Council continuing to operate in isolation. The problems caused by lack of capacity and resilience would not be addressed and the resource pressures on both Councils would only continue if changes to the existing service provision were not made. Option 1 is therefore not recommended. Whilst option 2 can deliver some of the benefits of collaboration it will not achieve the necessary step change in service resilience or maximise the expected efficiencies. Option 2 is therefore not recommended. Whilst Option 3 might prove of value in the future, there are no discernable advantages at this stage in significantly changing the scope of the project through the inclusion of additional services, or by inviting other potential partners to join the service. Option 3 is therefore not recommended.
- 21 The existing interim joint working arrangements have confirmed the significant level of trust between the two Councils and the shared commitment to make the project a success. This period of joint working has also confirmed that the potential efficiencies are achievable, for example, through improved resource allocation, the standardisation of IT applications and the sharing of best practice.
- 22 In terms of audit and fraud related services there is a close strategic fit between NYCC and CYC. The Councils provide many of the same services – including education, social care, highways, libraries and trading standards, and therefore the skills and knowledge are easily transferable. The main Council offices are geographically close and other partnership arrangements already exist or are being developed between the two Councils.
- 23 Assuming that Members wish to proceed with the project as defined (Option 4 - paragraph 19), then seven possible options have been identified for the long term organisational structure of the shared service, as follows:
- a) Option A - Joint Working Arrangement  
Formal agreement between the two Councils to collaborate in service delivery. Officer based decision making structure (primarily limited to operational issues). Staff would remain employed by their respective Councils. The agreement would provide an

opportunity to share best practice and second staff between the Councils to meet peaks in workload or other demands.

- b) Option B - Contract to Supply Services  
Service provided by Council 'X' to the other under contract. Services delivered and managed within the decision-making framework of Council 'X'. Council 'Y' would need to undertake an EU compliant tender exercise to award the contract. It would also require a 'client' structure to monitor the delivery of the contract. Council 'X' would own assets and enter into contracts. Staff in Council 'Y' would be subject to a TUPE<sup>1</sup> transfer to Council 'X'.
- c) Option C – Joint Committee  
Joint partnership agreement based on a Member Committee, which would be responsible for strategic decision making and policy setting. Operational decisions taken by joint management structure. Staff in Council 'Y' would be subject to a TUPE transfer to Council 'X' (acting as nominal lead authority). Council 'X' would also own all assets and enter into contracts.
- d) Option D – Function Delegated by Council 'Y' to Council 'X'  
Function formally delegated by one Council to the other, with the service delivered in accordance with a service level agreement (SLA). Council 'X' (acting as lead authority) would be responsible for strategic decision making and policy setting, but with possible oversight by Member/officer Partnership Board. Council 'X' responsible for operational management. Staff in Council 'Y' would be subject to a TUPE transfer to Council 'X'. Council 'X' would also own all assets and enter into contracts.
- e) Option E – Company Limited by Shares or Guarantee  
Joint service outsourced to a company limited by shares or guarantee. The company would be wholly owned by the two Councils, with a board of directors responsible for strategic decision making and policy setting. Operational decisions would be taken by company management. Company able to own assets, enter into contracts and employ staff in its own right. Staff from both Councils would be subject to a TUPE transfer to the company. Councils would be able to receive dividends.
- f) Option F – Joint Venture Vehicle  
Joint service outsourced to a company limited by shares (with ownership shared between the two Councils and a private sector partner). Board of directors responsible for strategic decision making and policy setting. Operational decisions would be taken by company management. Opportunities exist for external investment in the service. The Councils would need to undertake a joint EU compliant tender exercise to award the contract to the company. Staff from both Councils would be subject to a TUPE transfer to the company. Company able to own assets, enter into contracts and employ staff in its own right.

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<sup>1</sup>The Transfer of Undertakings (Protection of Employment) Regulations

g) Option G – Fully Outsourced Service

Service provided by private sector company. Board of directors responsible for strategic decision making and policy setting. Operational decisions would be taken by company management. Opportunities exist for external investment in the service. The Councils would need to undertake a joint EU compliant tender exercise to award the contract to the company. Staff from both Councils would be subject to a TUPE transfer to the company. Company able to own assets, enter into contracts and employ staff in its own right.

24 The Project Board assessed all of these options against a series of agreed criteria. The results of this assessment are set out in paragraph 42 of the OBC. This evaluation process identified three preferred options, as follows:

- Option A – Joint Working Arrangement
- Option C – Joint Committee
- Option E – Company Limited by Shares or Guarantee

25 One of the key determinants in the assessment process was the degree to which each Council would be able to exercise control and influence over the services in the future. Both Councils also wish to retain sufficient and continuing access to the services concerned. It was also considered essential that the chosen option would represent a genuinely equal partnership between the Councils. Options B and D required one or other Council to assume overall responsibility for operational management and decision making. In such circumstances it was considered unlikely that the partnership would be perceived as being equal. Options B and D were therefore discounted. Options F and G were similarly discounted because any private sector involvement would necessarily diminish the degree of control and influence each Council would have over the future direction of the service. The set up costs for options F and G were also likely to be high given the need to undertake a full EU compliant tender exercise and to establish client structures in both Councils.

26 The three preferred options were then subject to more detailed assessment. The results of this detailed assessment are set out in annex 3 of the OBC.

27 All three options are considered to be affordable and would be relatively easy to set up and operate. However, option A lacks resilience and would not form a sound platform to develop the service in the future. Its viability is too dependent on certain key individuals and there is a significant risk that it would not survive if they should leave. It is also the least likely to deliver the anticipated benefits and service improvements. Option C offers long-term resilience and would deliver service efficiencies. However, it would not be perceived as an equal partnership between the two Councils. This is considered to be politically unacceptable since one of the Councils would necessarily need to take



the lead, and would therefore be able to exert a disproportionate degree of control and influence over the service.

- 28 Option E (Company Limited by Shares or Guarantee) is recommended. This option offers the required long-term resilience because it is not dependant on certain key individuals, and it will deliver the expected efficiencies and economies of scale set out in the vision and objectives for the shared service. The company would be an equal partnership between the two Councils, with both owning an equal 50:50 share. The company would therefore enable both Councils to exercise the same degree of control and influence over the future direction and development of the service. In addition, the company would be able to offer audit and fraud services to other public and third sector bodies, thereby helping the Council to discharge its responsibilities under the Local Government Act 2000, by developing the market place and offering alternative means of supply. It also offers an appropriate structure to enable other local authorities and public sector bodies in the region to join the partnership in the future, should CYC and NYCC as joint partners agree that this would be appropriate. Forming a company also represents a more innovative solution and is therefore more likely to inform both Councils of the possible lessons from shared service working.
- 29 Subject to Members approval to proceed with the development of Option E, the Project Board proposes to use the OBC as the basis for developing a detailed Project Implementation Plan. This will enable the Project Board to refine and agree the appropriate governance structures and arrangements, and to fully address all the financial and staffing implications prior to final Member approval. It is proposed to follow the following timetable, with a final report being presented to Members in September 2008 setting out the full implications;

<b>Action</b>	<b>Date</b>
Prepare detailed Project Implementation Plan – which would include the following elements; <ul style="list-style-type: none"> <li>• Company formation</li> <li>• Governance arrangements</li> <li>• Client roles and reporting arrangements</li> <li>• Contract preparation</li> <li>• Charging arrangements</li> <li>• Cost allocation</li> <li>• Staffing</li> <li>• Accommodation, IT and support services</li> </ul>	April - August 2008
Prepare Change Management Programme	June - August 2008
Implement agreed structure, subject to final Member approval.	September - December 2008
Target go-live date	1 April 2009

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Progress reports will be presented to both the Audit and Governance Committee and to Corporate Services EMAP, through the period.

## Analysis

- 30 The detailed analysis and assessment of the options for the future direction of the shared service and the organisational structure are set out in the OBC.

## Corporate Priorities

- 31 This report contributes to the Council's overall aims and priorities by helping to provide strong leadership, and by encouraging improvement in everything we do.

## Implications

- 32 The implications are;

- **Financial** – The proposals have been discussed with Finance. An assessment of the set up and operating costs for the chosen option is included in the OBC (annex 3). A Project Implementation Plan will be prepared which will include details of the payment mechanism for the shared service, and the cost sharing arrangements between the two Councils. The Plan will be developed in accordance with the financial principles and projections set out in annex 4 of the OBC. Final implementation will only take place when there is agreement between the two Councils on the appropriate financial arrangements, and subject to final Member approval.
- **Human Resources (HR)** – HR have been consulted on the implications of the proposals set out in this report. The overall staffing implications of the chosen option have been considered and are set out in the OBC. A Project Implementation Plan and associated Change Management Programme will be prepared. This will include full consideration of all the TUPE and other related implications, both for the Council and the staff concerned. Final implementation will not proceed until there is agreement between the two Councils regarding all aspects of the staffing implications.
- **Equalities** - there are no equalities implications to this report.
- **Legal** – Legal Services have been consulted on the proposals. The Council has the necessary legal powers to implement the recommended option for the future structure of the shared service.
- **Crime and Disorder** – there are no crime and disorder implications to this report.

- **Information Technology (IT)** - there are no IT implications for CYC arising from this report. Work is ongoing to enable NYCC staff to use the audit IT application currently used by CYC staff. The costs of this work are being met from funding provided by the Y&H Centre of Excellence.
- **Property** - there are no property implications to this report. It is proposed that the Council would provide fully serviced accommodation to the shared service, keeping with the provision currently made available to CYC audit and fraud staff.

## Risk Management Assessment

33 The proposed collaboration offers an opportunity to deliver efficiencies and economies of scale. The risks of the project and the preferred option for the long term structure for the shared service have been considered by the Project Board. The risks and the planned actions to mitigate those risks, are set out in annex 5 of the OBC.

## Recommendation

34 The Advisory Panel are asked to advise the Executive Member to;

- a) Note the progress which has been made in developing the shared service initiative to date, and the outcome of the options appraisal as set out in the Outline Business Case;

### Reason

*To enable Members to consider the progress made with the shared service initiative to date, and the outcome of the options appraisal undertaken by the Project Board.*

- b) Note the options for the future direction of the project, as set out in paragraph 19, and approve the officer recommendation to proceed with the project as originally defined (Option 4);

### Reason

*To enable Members to agree the next steps in the development of the shared service.*

- c) Approve, in principle, the officer recommendation to proceed with option E, as the long term organisational structure of the shared service;

### Reason

*To enable Members to agree the next steps in the development of the shared service.*

- d) Note the intention to report back to this Committee for final Member approval, before progressing to full implementation of the chosen option.

## Reason

*To enable Members to agree the next steps in the development of the shared service.*

## Contact Details

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Report Approved



Date 7 March 2008

## Specialist Implications Officers

Patrick Looker (Finance)  
Matthew Waterworth (Legal)  
Janet Neeve (HR)

**Wards Affected:** Not applicable

All



**For further information please contact the author of the report**

## Background Papers

None

## Annexes

Annex A – Outline Business Case for the Shared Audit and Fraud Service

- Annex 1 (Structure Charts)
- Annex 2 (Financial and Performance Related Baseline Information) – Confidential
- Annex 3 (Detailed Options Assessment)
- Annex 4 (Financial Principles and Projections) – Confidential
- Annex 5 (Risk Register)